

Section VII

Hampton Roads Real Estate

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Real Estate in Hampton Roads

Real estate plays a vital role in the economy and constitutes where the citizens and visitors of Hampton Roads live, work, shop, and stay. Hampton Roads real estate remains in a very fragile state since the onset of the great recession in 2007. Construction employment has declined by 15,500 positions since 2005, the peak of residential home building. The number of building permits issued fell from over 11,000 in 2005, to a low of 3,966 in 2010, to just over 5,700 in 2014. The value of permits issued in the region has followed a similar path, as the average value of single family permits decreased by 12.9% between 2007 and 2014 (inflation-adjusted).

Homeownership declined from its peak in 2004, but that resulted from increasing home prices making housing unaffordable. The decline in home prices has made housing more affordable, where a family earning the region's median income is able to afford 79.0% of homes sold in the fourth quarter of 2014. Mortgage rates are also exceptionally low compared to long-term trends, improving affordability of housing. Unfortunately, reports indicate that credit standards remain exceptionally tight since the onset of the financial crisis, making it difficult for individuals to gain access to credit.

One result of the housing correction and lower home ownership rates has been growth in multifamily construction, as builders take advantage of higher rents relative to the cost of homeownership.

While the vacancy rate of retail space has not increased significantly across the region, it is important to note that all real estate is local, so trends across the region will not necessarily manifest themselves in individual pockets of Hampton Roads. The industrial market vacancy rate remains elevated, despite little growth in industrial square footage over the past five years.

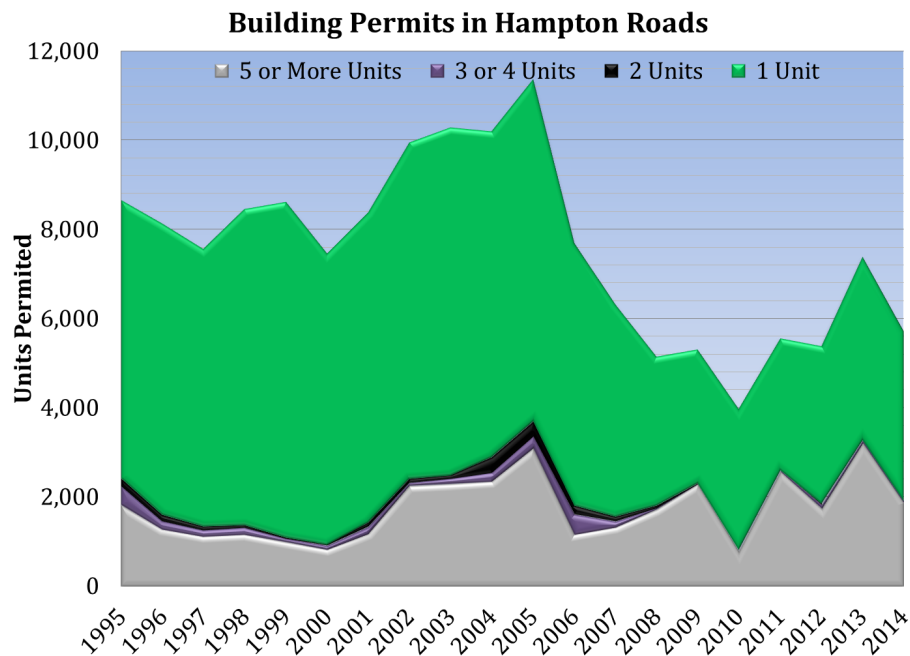
While there has been some recovery in construction, general weakness in the Hampton Roads labor market suggests that the regional housing market will not experience the rapid home price appreciations that has occurred in some of Hampton Roads' reference metropolitan areas, and the Hampton Roads housing market will continue to engage in a long, slow recovery.

Figure 7.1 Building Permits in Hampton Roads**Why is it important?**

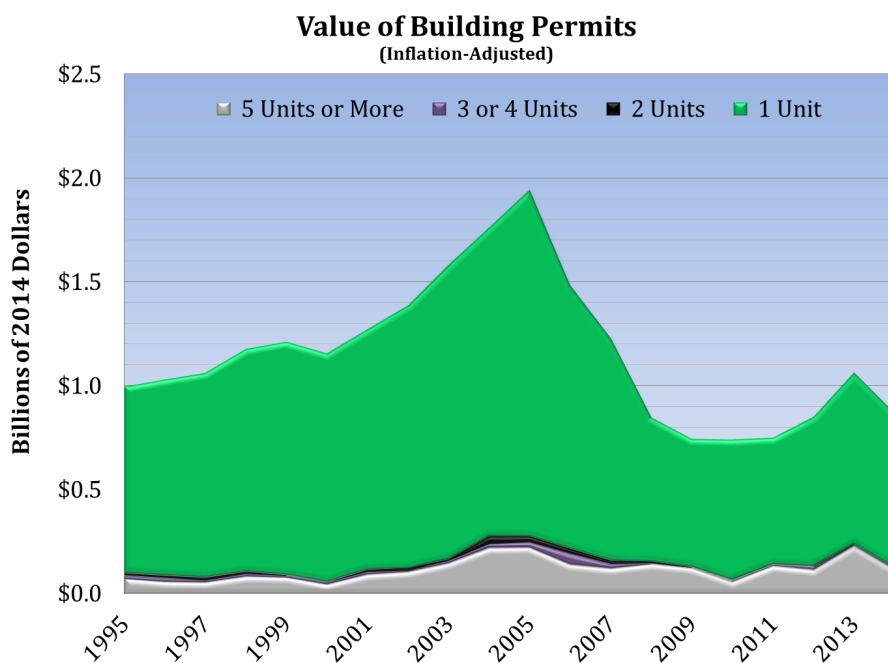
Building permit information reflects on the general wellbeing of the residential construction industry. Large increases or decreases in the number of building permits have both social and economic implications.

How are we doing?

Building permits declined rapidly on the eve of the great recession as builders quickly reacted to the looming housing correction. The number of units permitted was higher in 2013, but have typically been around 5,500. Single family homes are typically greater than 75% of all permits issued, but were only 66% of permits in 2014.



Source: U.S. Census Bureau, HRPDC

Figure 7.2 Value of Building Permits in Hampton Roads

Source: U.S. Census Bureau, HRPDC

Why is it important?

The value of building permits is an excellent indicator of residential construction activity. Both the number and the value of building permits reflect the demand for housing in relation to the price of housing.

How are we doing?

The value of housing permits issued has increased since the housing correction, indicating a level of recovery to the overall housing market. It is important to note that recovery will likely not achieve the levels seen during the housing boom.

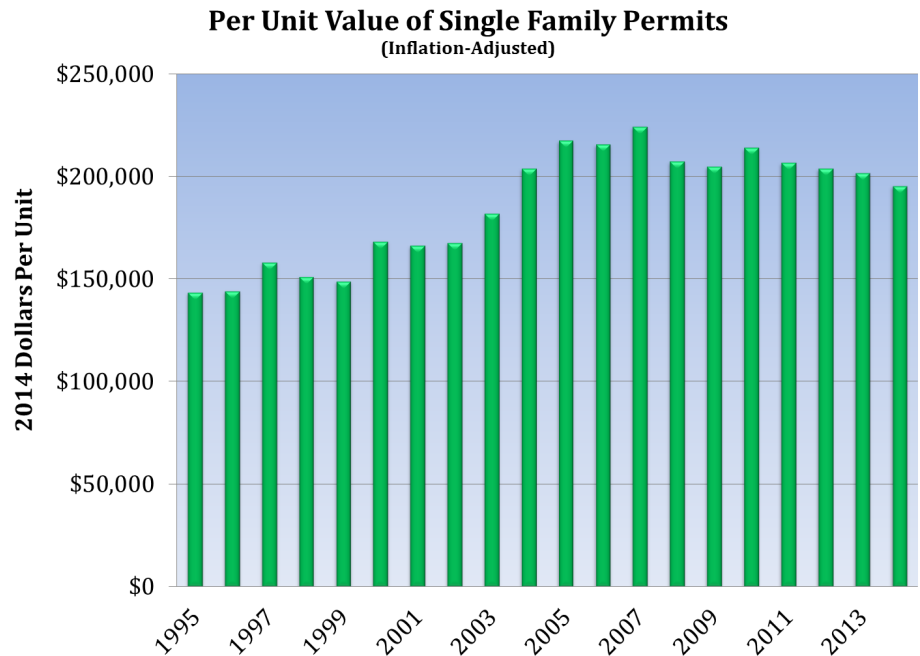
Figure 7.3 Per Unit Value of Single Family Building Permits in Hampton Roads

Why is it important?

The size and amenities of homes built in the region respond to numerous features, including economic factors, family size, and changing tastes. The cost of building new homes indicates at what price point the market has been operating.

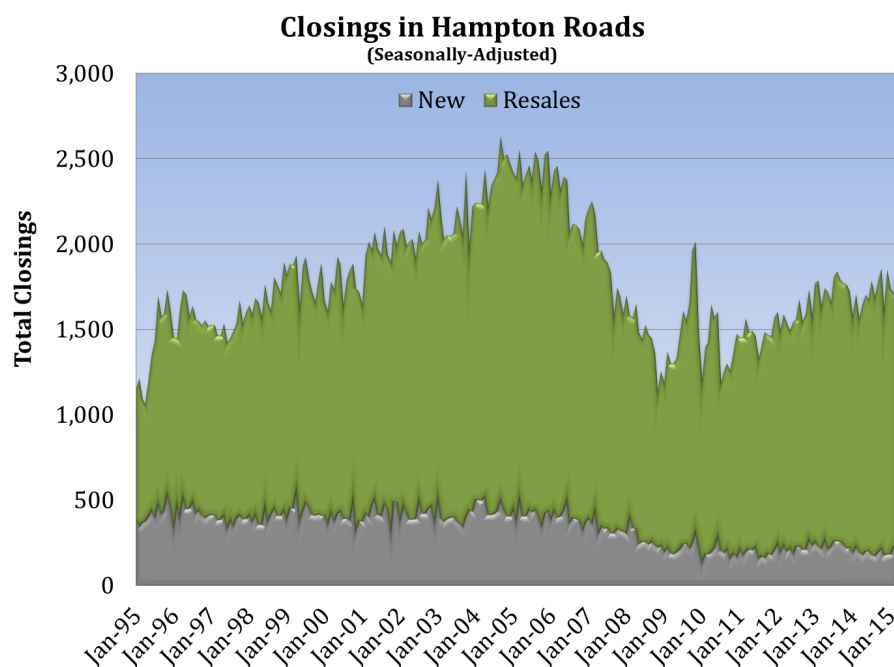
How are we doing?

Inflation-adjusted values peaked in 2007, before declining slightly through the great recession. The value per single family permit has stabilized at just under \$200,000 in 2014.



Source: U.S. Census Bureau, HRPDC

Figure 7.4 Pre-Owned and New Construction Home Sales in Hampton Roads



Source: Rose and Womble Residential Data Bank, HRPDC

Why is it important?

Regional home sales react to both local and national market pressures. Large increases in new construction sales often point to an increasing population, while increases in housing resales can be attributed to a variety of factors, including economic growth.

How are we doing?

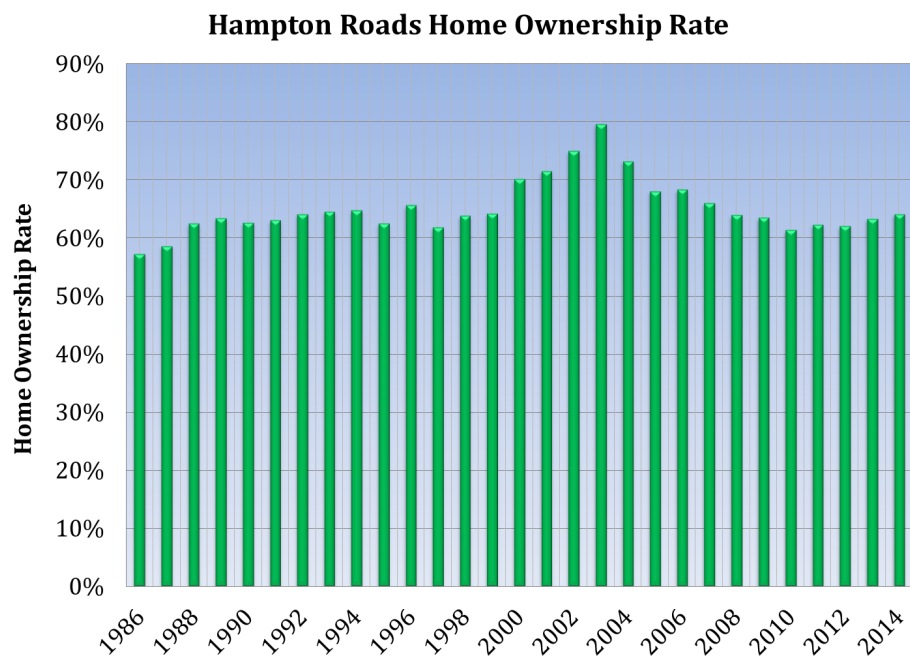
Closings in Hampton Roads contracted significantly during the great recession, with a brief spike related to the home buyer tax credit. Transactions have maintained a higher pace since January of 2013.

Figure 7.5 Homeownership Rates in Hampton Roads**Why is it important?**

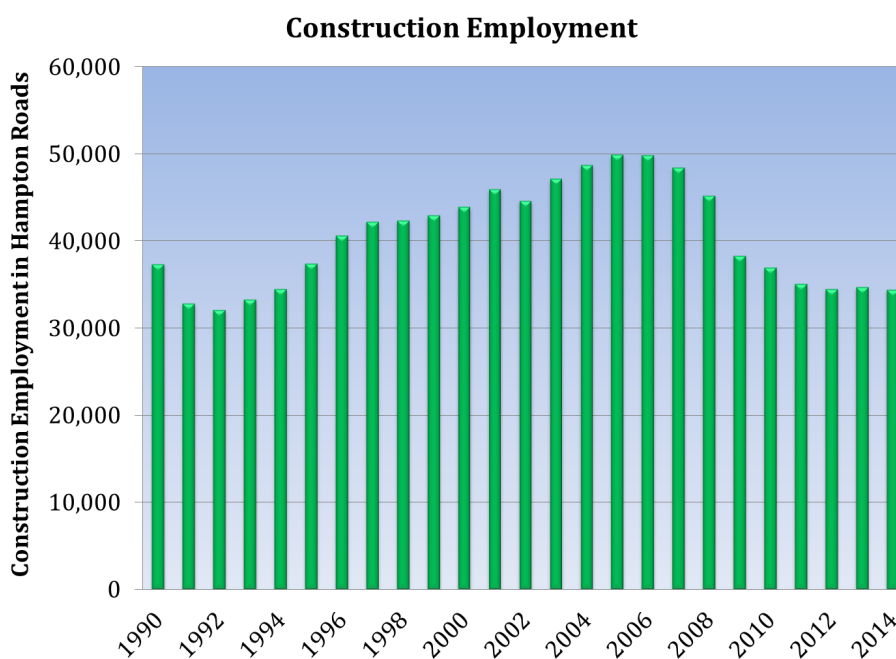
Homeownership was a stated policy goal of the two previous presidential administrations, and is often been considered part of the American dream. Changes in the home ownership rate are driven by new household formation, as well as other demographics changes.

How are we doing?

Homeownership peaked in 2003, until rising home prices started to slow down household formation. The home ownership rate has returned to the levels seen in the 90's, and this should result in strong household formation as the population continues to grow.



Source: U.S. Census Bureau, HRPDC

Figure 7.6 Construction Employment in Hampton Roads

Source: Bureau of Labor Statistics, HRPDC

Why is it important?

Construction employment serves as another measure of the construction industry, and the industry provides opportunities for individuals who decided to forego high levels of education.

How are we doing?

Construction employment declined significantly during the housing correction, and has yet to return to the levels seen through the 2000's.

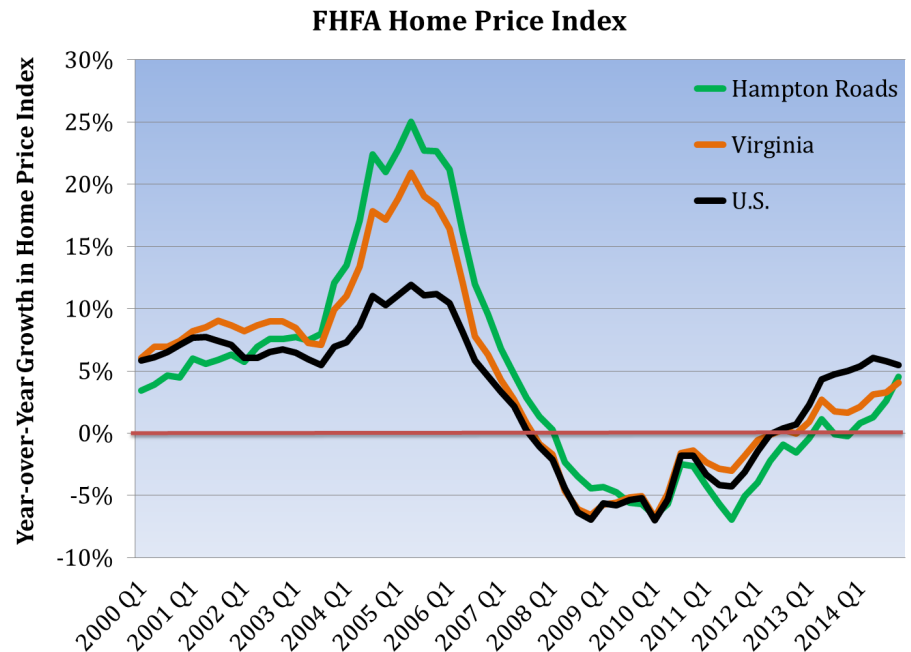
Figure 7.7 Housing Price Index in Hampton Roads, Virginia, and the U.S.

Why is it important?

The FHFA Home Price Index measures repeated sales of homes to capture the true increase in the cost of housing. Rising home values serve as an asset to families, but also represent a rising cost of living for workers regionally.

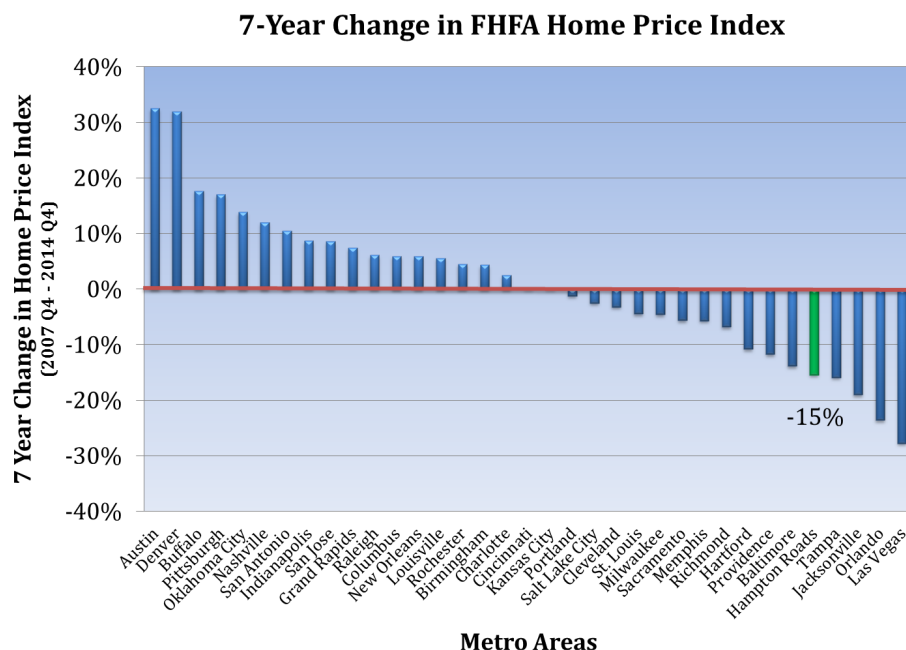
How are we doing?

The interesting factor for housing in Hampton Roads was although it experienced a similar decline to that of the Nation and the Commonwealth from 2007 to 2009, its decline in 2011 was significantly worse.



Source: Federal Housing Finance Agency, HRPDC

Figure 7.8 Housing Price Index in Hampton Roads and Reference Metropolitan Areas



Source: Federal Housing Finance Agency, HRPDC

Why is it important?

Housing is a major component of the cost of living, affecting how the Hampton Roads region can compete for employment with other metro areas. Also, real property taxes are an important part of local government finances, and changes in home values can impact the level of services that a locality can provide.

How are we doing?

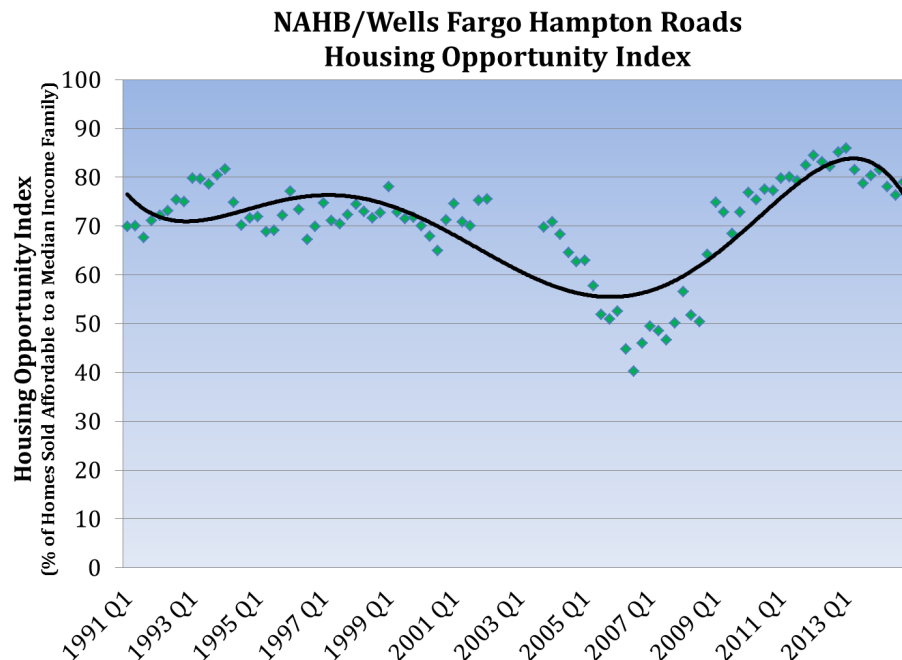
Hampton Roads home prices declined significantly over the past 6 years compared to other metro areas with populations between 1 and 3 million.

Figure 7.9 Housing Opportunity Index**Why is it important?**

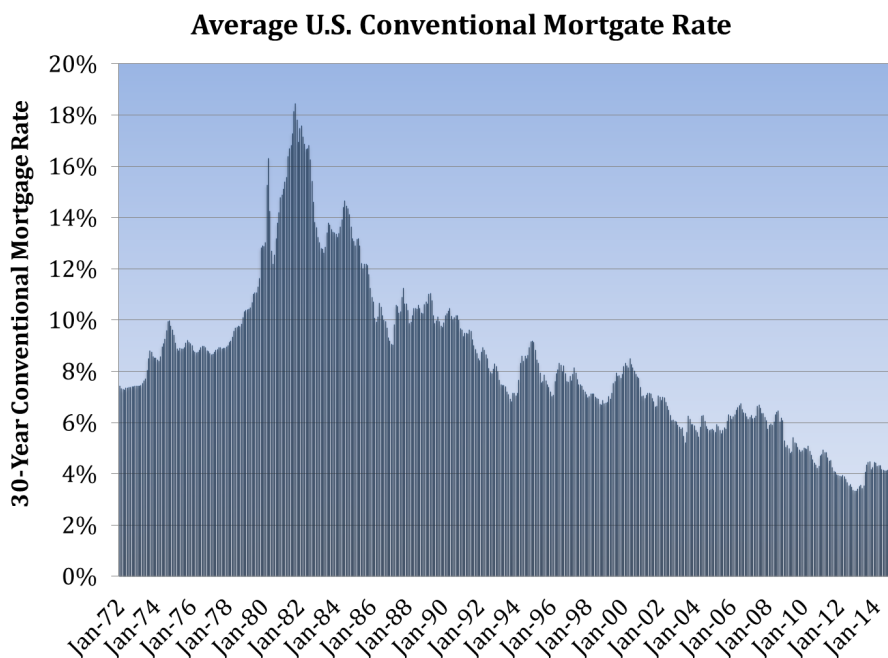
The ability to purchase housing improves the quality of life by offering individuals the opportunity to take advantage of the benefits associated with homeownership. This index estimates the percentage of homes sold that are affordable to a family earning the region's median income.

How are we doing?

Housing affordability had increased in Hampton Roads as a result of lower home prices, lower interest rates, and steady growth in median incomes. More recently, affordability started declining according to this measure.



Source: National Association of Home Builders, Wells Fargo, HRPDC

Figure 7.10 30-Year Conventional Mortgage Rates

Source: Freddie Mac, HRPDC

Why is it important?

National mortgage rates greatly influence local mortgage rates and the overall affordability of the housing market. Continued low rates allow the market to continue to improve, but any major increase in mortgage rates could greatly impact the housing market.

How are we doing?

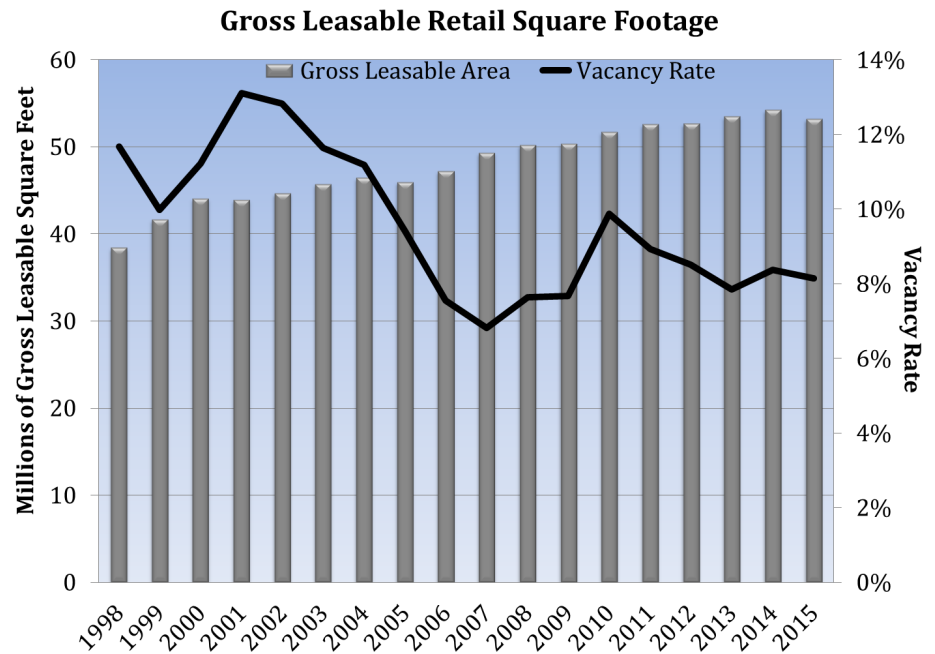
Mortgage rates have increased from the low levels seen as a result of both decreased demand for loans and accommodative monetary policy after the recession. A significant increase in the rate would impact affordability.

Figure 7.11 Gross Leasable Retail Space in Hampton Roads**Why is it important?**

The availability of retail space reflects market conditions, speculation, and access to real estate.

How are we doing?

Hampton Roads has continued to add retail square footage, and has maintained a lower vacancy rate for that retail footage than it saw during the late 90's and the recession at the beginning of this century.



Source: Old Dominion University Center for Real Estate and Economic Development, HRPDC

Figure 7.12 Hampton Roads Industrial Market Vacancy Rate

Source: Old Dominion University Center for Real Estate and Economic Development, HRPDC

Why is it important?

The industrial market vacancy rate signals the availability of industrial space for area employers. Sudden large changes in the vacancy rate can indicate the arrival or departure of a major employer. Sustained changes are indicative of trends in the industrial market place.

How are we doing?

The vacancy rate spiked during the recession, and while it has declined from the peak in 2009, it still remains elevated above normal levels.